

## Neogen Corporation (NEOG)

**\$62.58** (As of 05/05/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 02/27/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

### Summary

Neogen witnessed solid performances within both the Animal Safety and the Food Safety segments. Acquisitions like Delta Genomics also resulted in revenue uptick. Partnerships, product launches and regulatory approvals were other highlights of the reported quarter. Impressive international business resulted from robust product sales. A strong solvency and capital structure is also encouraging. Overall, shares of Neogen have outperformed its industry over the past six months. However, Neogen's lower-than-expected results in the fiscal third quarter is concerning. Headwinds like unstable economic conditions mainly resulting from the coronavirus outbreak, currency issues and changes in Neogen's international business equations impacted both its domestic and global revenues. Escalating costs and contraction in both margins are also concerning.

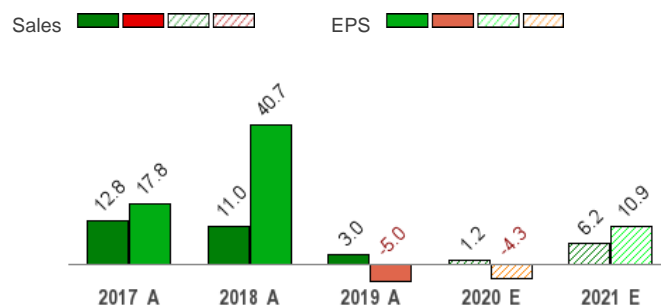
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$79.83 - \$48.91</b>
20 Day Average Volume (sh)	<b>233,558</b>
Market Cap	<b>\$3.3 B</b>
YTD Price Change	<b>-4.1%</b>
Beta	<b>0.70</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b><a href="#">Medical - Products</a></b>
Zacks Industry Rank	<b>Top 15% (39 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>-14.8%</b>
Last Sales Surprise	<b>-2.2%</b>
EPS F1 Est- 4 week change	<b>0.0%</b>
Expected Report Date	<b>07/28/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>55.9</b>
P/E F1	<b>56.9</b>
PEG F1	<b>5.7</b>
P/S TTM	<b>7.9</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	106 E	113 E	105 E	117 E	445 E
2020	101 A	108 A	100 A	109 E	419 E
2019	100 A	107 A	98 A	110 A	414 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.28 E	\$0.31 E	\$0.27 E	\$0.34 E	\$1.22 E
2020	\$0.28 A	\$0.31 A	\$0.23 A	\$0.28 E	\$1.10 E
2019	\$0.29 A	\$0.31 A	\$0.25 A	\$0.30 A	\$1.15 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/05/2020. The reports text is as of 05/06/2020.

## Overview

Neogen Corporation develops and markets food and animal safety products. The company's Food Safety Division markets culture media and diagnostic test kits to detect foodborne bacteria, natural toxins, food allergens, drug residues, plant diseases and sanitation concerns.

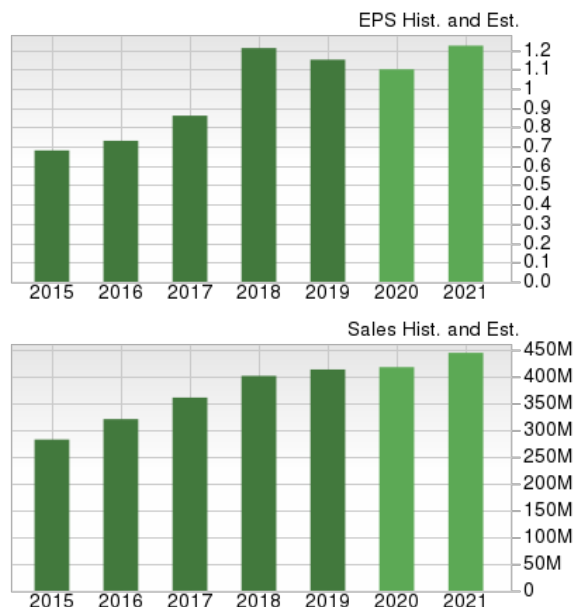
Neogen operates under two business segments — **Food Safety** and **Animal Safety**.

**Food Safety** (51.5% of total revenues in 2019, underlying growth rate was 9.8% from fiscal 2018): The products in the segment include tests for Mycotoxins, Food allergens, Dairy antibiotics, Foodborne pathogens, Spoilage microorganisms, Sanitation monitoring, Dehydrated culture media and Seafood contaminants. Revenues from Neogen's Food Safety segment accounted for 43.7% of the company's total revenues for fiscal 2018.

**Animal Safety** (48.5%, down 1.3%): The division is engaged in the development, manufacture, marketing and distribution of veterinary instruments, pharmaceuticals, vaccines, topicals, diagnostic products, rodenticides, cleaners, disinfectants, insecticides and genomics testing services for the worldwide animal safety market. The majority of these consumable products are marketed through a network of national and international distributors, as well as a number of large farm supply retail chains in the United States and Canada.

The animal safety products include Veterinary instruments, Veterinary pharmaceuticals, Veterinary biologics, Veterinary OTC products, Rodenticides, Cleaners and disinfectants, Insecticides, Animal genomics services and Life sciences. Revenues from Neogen's Animal Safety segment accounted for 51.2% of the company's total revenues for fiscal 2018.

Neogen acquired the assets of the Edmonton-based Delta Genomics Centre, an animal genomics laboratory in Canada, in January 2019. Delta's laboratory operations were renamed Neogen Canada post the acquisition, thus, becoming Neogen's sixth animal genomics laboratory. This is intended to help accelerate growth of Neogen's animal genomics business throughout Canada.



## Reasons To Buy:

▲ **Share Price Performance:** Shares of Neogen have outperformed its industry over the past six months. The stock has lost 3.6% compared with the industry's 3.9% decline. Neogen witnessed a solid performance by the Animal Safety segment (up 5.9%) and strong contributions from the Food Safety segment's product lines. Acquisitions like Delta Genomics also resulted in a revenue uptick. The company's Food Safety segment registered 5% growth in sales of the company's general sanitation products (including the AccuPoint Advanced product line), 4% increase in rapid diagnostic tests sales, 4% rise in Neogen's food allergen product line. Further, partnerships, product launches and regulatory approvals were highlights of the reported quarter. Internationally, the company's Europe, Scotland, Latin America and China businesses were impressive, resulting from robust product sales.

Neogen is well positioned to gain from its extensive global foothold and diverse product mix. The company's long-term growth strategy looks impressive.

▲ **Long-Term Growth Strategy Progresses Well:** Neogen in its mission to be the leading company in the development and marketing of solutions for food and animal safety follows a vision or a growth strategy consisting of the following elements: increasing sales of existing products; introducing new products and product lines; expanding international sales; and acquiring businesses and forming strategic alliances.

Going by the first leg of the growth strategy, Neogen is progressing well in terms of picking the right growth markets and gaining bigger share of those markets. In terms of the second leg of the growth strategy, Neogen continues well with its strong R&D activities. With respect to the third leg of international growth, the company is expanding well in other geographies.

Regarding the fourth leg of inorganic growth, Neogen acquired Delta Genomics Centre in January 2019. Per management, the buyout is expected to boost Neogen's animal genomics business throughout Canada. The introduction of certain programs to fight a persistent sluggishness in a few Animal Safety end markets is also in Neogen's pipeline.

▲ **Animal Safety Business Grows Well:** In the fiscal third quarter, Neogen's Animal Safety segment recorded a 5.9% revenue uptick, resulting from the domestic genomics business, with an additional incremental volume of rodenticides, insecticides, and certain cleaners and disinfectants. Other factors contributing to the uptick were the company's continued penetration into the domestic companion animal service space and increased volumes in the domestic porcine market. Notably, growth in the sheep testing market in Australia recorded revenue growth even in the face of wildfires that affected that country throughout the quarter.

The company's global animal genomics business recorded an uptick of 8% in the quarter, resulting from strength in the domestic companion animal market, and the global genomic testing of beef and dairy cattle, swine and poultry.

▲ **Food Safety Business Holds Potential:** Neogen continues to see rising revenues from the Food Safety business. Management believes that a rising population and growing awareness about higher-quality food among the middle-class group are stimulating the niche market. Neogen recorded 5% growth in sales of the company's general sanitation products (including its AccuPoint Advanced product line), 4% increase in rapid diagnostic tests sales, 4% rise in Neogen's food allergen product line despite a fall in overall segmental revenues.

In the reported quarter, the segment also recorded robust growth in biosecurity products such as cleaners, disinfectants, rodenticides and insecticides in the international markets. The uptick resulted from increased customer demands as they have realized the importance of effective biosecurity programs in defending their food supply who are currently dealing with African swine fever and COVID-19.

▲ **International Growth Continues:** In the third quarter of fiscal 2020, a major portion of Neogen's revenues (40%) came from international sources. Revenues for combined Europe operations increased 5%, resulting from a 24% increase in cleaner and disinfectants, and veterinary instruments. Genomics services at the company's Scottish operation rose 2%. Mexico-based Neogen Latino America's sales climbed 15%, resulting from a large sale of rodenticides in Mexico which led to an 11% increase in diagnostic test kits. Neogen China's revenue increase of 38% led by robust sales increases of cleaner and disinfectants to help in combatting the outbreaks of African swine fever and COVID-19.

▲ **Partnerships and Acquisitions:** Of late, Neogen inked a series of partnership deals, which is expected to aid in the company's segmental growth as well as international expansion. Neogen partnered with Ripe Technology, which is a food industry blockchain pioneer, with the aim of adopting the blockchain technology for use in the company's animal genomics along with food safety diagnostics.

Further, it inked a partnership deal with Gencove to develop NEOGEN's next-generation of animal genomic tests. Neogen acquired Diessechem, an Italy-based food and feed safety diagnostics distributor, thus expanding Neogen's European operations.

Among recent acquisitions, Neogen purchased its food safety diagnostics distributor, Productos Quimicos Magiar (Magiar), having operations in Argentina and Uruguay. The acquisition is expected to expand Neogen's physical presence in the wider beef and dairy markets. Further, the company acquired Abtek Biologicals, a UK-based company to add to Neogen's current solutions portfolio.

▲ **Genomic Business Progresses:** Neogen's worldwide animal genomics business unit recorded a robust revenue increase in the third quarter. The revenue growth of 6% was led by a strong domestic genomics business along with additional incremental volume of rodenticides, insecticides, and certain cleaners and disinfectants. The global genomics business, which recorded a revenue uptick of 8% in the reported quarter, resulted from a robust domestic companion animal market as well as worldwide genomic testing of beef and dairy cattle, swine and poultry. Per management, this growth is attributable to significant increases in companion animal genomics business in key global markets such as the United States, Europe, Mexico and China.

Neogen teamed up with International Genetic Solutions ("IGS"), which was a collaboration between progressive breed associations, in the second quarter. The alliance was aimed to focus on enhancing genomic impact in the IGS platform (currently, the only available major multibreed beef genetic evaluation) and on improving research and development required to continue improving Neogen's Igenity Beef Profile. Neogen also received the AOAC Research Institute's approval for its Soleris for Enterobacteriaceae (EBAC). The test has been designed for the prevention of bacterial contamination of food, pet food, nutraceutical, pharmaceutical and cosmetic products. AOAC also

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approved Neogen's Reveal 3-D for Peanut test, which is expected to help prevent peanut residue contamination in food not intended to contain peanuts.

The company launched updated content to Angus GSSM, which is the first genomic profiler designed specifically for Angus cattle, in association with Angus Genetics. Notably, in the reported quarter, Neogen launched Igenity + Envigor. Per the company, it is the first and only genetic test in the beef industry that measures heterosis in crossbred cattle.

Further, the company launched the Reveal Q+ MAX test to check for ergot alkaloids infection in rye and wheat. It received AOAC Research Institute's clearance for its Reveal 3-D for Peanut test to help prevent peanut residues from contaminating foods intended to be peanut-free.

Recently, the company announced the extension of its collaboration with the government of Ayr, Scotland through September 2021. Notably, the company will conduct genomics testing as part of the government's program to enhance the country's beef herd.

▲ **Strong Solvency and Capital Structure:** Neogen exited the third quarter of fiscal 2020 with cash and investments of \$328 million compared with \$314 million at the end of the fiscal second quarter of 2020. Notably, the company does not have any kind of debt on its balance sheet. This apparently indicates a strong solvency position for the company.

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## Reasons To Sell:

- ▼ **Expensive Valuation:** Neogen's P/E (F12M) ratio is expensive in comparison to the broader industry. The company is currently trading at a forward P/E (F12M basis) ratio of 51.5 for the past year, whereas the current P/E ratio (F12 basis) for the industry it belongs to is 28.3.
- ▼ **Coronavirus Concern:** Over the past few months, the coronavirus pandemic has wreaked havoc on the company's stock. It faced a very volatile currency market and expects the negative impacts to continue in the fourth quarter as well. Due to the outbreak, the company's results fell below its expectations. Even though it is taking steps to protect its business, Neogen remains wary of future revenue prospects.
- ▼ **Currency Headwinds:** Per Neogen, persistent weakness in the global animal protein market and strongly negative currency conversion posed as headwinds in fiscal 2019. Turbulent economic conditions in the production animal markets, U.S.-China trade tensions along with decreased sales to animal protein market distributor partners led to the disappointing performance of the Animal Safety segment. The negative currency movement effect is majorly due to weakening currencies against the dollar in Brazil and the U.K.

Global economic issues continue to put pressure on Neogen's vast international trade. Also, tough competitive landscape and pricing pressure also weigh on the stock.

- ▼ **Competitive Landscape Tough:** Neogen faces intense competition from companies ranging from small businesses to divisions of large multinational companies. Some of these organizations have substantially greater financial resources than the company. Historically, Neogen has faced intense competition resulting from the development of new technologies by the company's competitor which could affect the marketability and profitability of Neogen's products.

In this regard, we note that, in fiscal 2016, within Animal Care & Other product, the company was notified that a competitor had been granted approval on a new drug application for a competitive thyroid replacement product, effectively giving them exclusive rights to sell the product. As a result, Neogen is unable to sell its product into the domestic market effective July 2016, until it gets a similar regulatory approval.

- ▼ **Global Economic Problems Hamper Growth:** The current macroeconomic environment across the globe has adversely affected Neogen's financial operations. Governments and insurance companies continue to look for ways to contain the rising cost of healthcare. This might put pressure on players in the healthcare industry with Neogen being no exception. Moreover, fluctuating currency rates also hamper growth of companies like Neogen, given that it derives a substantial amount of its revenues from international markets. The company's sales are thus directly affected by unfavorable macroeconomic conditions. We are concerned that such macroeconomic softness might hamper the company's growth.
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## Last Earnings Report

### Neogen's Q3 Earnings & Revenues Miss, Margins Fall

Neogen's third-quarter fiscal 2020 earnings per share of 23 cents lagged the Zacks Consensus Estimate of 27 cents by 14.8%. The fiscal third-quarter earnings per share lagged the year over year figure of 25 cents as well by 8%.

Revenues in the quarter grew 2.2% on a year-over-year basis to \$99.9 million, missing the Zacks Consensus Estimate of \$102.1 million by 2.2%.

Per Neogen, the company registered modest contribution by the genomics services (2%) and growth in a number of its food safety product lines despite the global threat posed by the coronavirus pandemic. The company also made four acquisitions to enhance its global foothold, which includes the recent acquisition of its distributors in Argentina and Uruguay. Also, the recent purchases of its food safety distributors in Australia and Italy are expected to aid the company's top-line. Neogen also registered strong top-line contribution from most of its key geographies.

The fiscal third quarter was the 112th of the last 117 quarters to mark a year-over-year revenue increase.

### Segments in Detail

**Food Safety Segment:** For the quarter under review, revenues in the segment totaled \$50.5 million, down 1.2% year over year. The year-over-year decline was driven by a significant decrease in sales of drug residue test kits after Neogen's exclusive relationship with its distributor of dairy antibiotic tests in Europe ended during the quarter. Another factor denting the segment's revenues is the loss of forensic kit sales in Brazil due to a large number of customers switching to an alternative technology platform. However, the decline in revenues was partially offset by 5% growth in the sales of the company's general sanitation products (including its AccuPoint Advanced product line), 4% increase in rapid diagnostic tests sales, and 4% rise in Neogen's food allergen product line.

**Animal Safety Segment:** During the fiscal third quarter, the segment recorded revenues of \$49.4 million, reflecting 5.9% growth from the year-ago quarter. The uptick mainly resulted from the domestic genomics business, with additional incremental volume of rodenticides, insecticides, and certain cleaners and disinfectants. The company's global animal genomics business recorded an uptick of 8% in the reported quarter resulting from strength in the domestic companion animal market, and the global genomic testing of beef and dairy cattle, swine, and poultry. In the reported quarter, Neogen also launched Igenity + Envigor. Per the company, it is the first and only genetic test in the beef industry that measures heterosis in crossbred cattle.

### Margin Details

Gross margin contracted 29 basis points (bps) to 45.4% in the fiscal third quarter.

Sales and marketing expenses increased 5.7% to \$17.7 million, whereas administrative expenses rose 7.7% to \$10.8 million. Research & development expenses were \$3.8 million, up 17.7%. All the expenses pushed up the operating costs by 7.7% to \$32.3 million.

During the reported quarter, operating income was \$13 million that declined 10.9% from the year-ago quarter's \$14.6 million. Operating margin contracted 192 bps to 13.1%.

Quarter Ending **02/2020**

Report Date	Mar 24, 2020
Sales Surprise	-2.22%
EPS Surprise	-14.81%
Quarterly EPS	0.23
Annual EPS (TTM)	1.12

## Recent News

On **Mar 31, 2020**, NEOGEN announced its acquisition of the assets of Chile-based Magiar Chilena (Magiar), a distributor of food, animal, and plant diagnostics, including NEOGEN products. After the buyout, NEOGEN will incorporate Magiar's assets into its wholly-owned subsidiary, NEOGEN Chile SpA, for continued operations in Chile.

On **Mar 12, 2020**, NEOGEN announced that it is currently in the process of ramping up its inventory of hand sanitizers, disinfectant wipes, nitrile gloves, and disinfectants to support the global effort to contain the spread of coronavirus.

On **Mar 11, 2020**, NEOGEN announced that it has developed the GGP Shrimp 50K, which is a universally applicable tool incorporating the latest advancements in genetic marker information for whiteleg shrimp.

On **Mar 5, 2020**, NEOGEN announced that it has added Chlorinated Tray Wash EVO to its line of phosphate-free and biodegradable cleaners, which can be utilized in a wide range of agricultural applications.

On **Mar 2, 2020**, NEOGEN announced that it has acquired the food safety assets of Australia-based Cell BioSciences, a major supplier of food safety and industrial microbiology products.

On **Feb 5, 2020**, NEOGEN entered into a partnership deal with Ripe Technology (a food industry blockchain pioneer) with the aim of adapting blockchain technology for use with NEOGEN's food safety diagnostics and animal genomics.

## Valuation

Neogen shares are down 4.1% in the year-to-date period and up 2.9% in the trailing 12-month period. Stocks in the Zacks sub-industry are down 7.7% while the Zacks Medical sector fell 3.6% in the year-to-date period. Over the past year, the Zacks sub-industry is down 1.4% and sector is up 1.5%.

The S&P 500 index is down 10.9% in year-to-date period and decreased 0.8% in the past year.

The stock is currently trading at 51.5X Forward 12-months earnings, which compares to 28.3X for the Zacks sub-industry, 22.2X for the Zacks sector and 20.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 75.6X and as low as 37.9X, with a 5-year median 50.6X. Our Neutral recommendation indicates that the stock will perform in-line market. Our \$66 price target reflects 54.1X forward 12-months earnings.

The table below shows summary valuation data for NEOG

Valuation Multiples - NEOG					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	51.54	28.30	22.17	20.63
	5-Year High	75.56	28.30	22.17	20.63
	5-Year Low	37.90	17.01	15.81	15.19
	5-Year Median	50.63	19.72	18.73	17.44
P/S F12M	Current	7.44	3.94	2.74	3.23
	5-Year High	11.19	3.99	3.84	3.44
	5-Year Low	4.82	2.88	2.25	2.54
	5-Year Median	6.71	3.22	2.96	3.01
P/B TTM	Current	2.52	3.11	3.74	3.80
	5-Year High	11.53	4.25	5.05	4.55
	5-Year Low	1.40	2.21	2.92	2.84
	5-Year Median	3.42	2.77	4.29	3.64

As of 05/05/2020

## Industry Analysis Zacks Industry Rank: Top 15% (39 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Phibro Animal Health Corporation (PAHC)	Outperform	3
Bio-Rad Laboratories, Inc. (BIO)	Neutral	3
Elanco Animal Health Incorporated (ELAN)	Neutral	3
Laboratory Corporation of America Holdings (LH)	Neutral	3
3M Company (MMM)	Neutral	3
Merck & Co., Inc. (MRK)	Neutral	3
Thermo Fisher Scientific Inc. (TMO)	Neutral	3
Zoetis Inc. (ZTS)	Neutral	3

Industry Comparison Industry: Medical - Products				Industry Peers		
	NEOG	X Industry	S&P 500	BIO	LH	MMM
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	C	-	-	B	C	B
Market Cap	3.30 B	261.71 M	19.65 B	13.26 B	15.80 B	84.80 B
# of Analysts	4	3	14	1	8	7
Dividend Yield	0.00%	0.00%	2.18%	0.00%	0.00%	3.99%
Value Score	D	-	-	C	C	C
Cash/Price	0.10	0.10	0.06	0.09	0.02	0.05
EV/EBITDA	32.80	0.16	11.77	5.40	10.38	13.71
PEG Ratio	5.81	4.14	2.49	NA	3.80	1.97
Price/Book (P/B)	4.63	3.33	2.64	2.30	2.25	8.31
Price/Cash Flow (P/CF)	41.92	17.57	10.48	62.21	8.37	12.26
P/E (F1)	58.05	32.38	19.10	57.91	19.93	18.68
Price/Sales (P/S)	7.88	5.13	2.00	5.73	1.36	2.62
Earnings Yield	1.76%	-0.07%	4.99%	1.73%	5.01%	5.35%
Debt/Equity	0.00	0.12	0.74	0.03	0.92	1.94
Cash Flow (\$/share)	1.49	-0.01	7.01	7.12	19.44	12.02
Growth Score	C	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	15.59%	12.07%	10.87%	18.54%	9.93%	5.11%
Proj. EPS Growth (F1/F0)	-4.35%	3.55%	-9.07%	8.36%	-27.87%	-13.28%
Curr. Cash Flow Growth	-3.00%	4.32%	5.88%	20.61%	12.16%	-11.15%
Hist. Cash Flow Growth (3-5 yrs)	15.82%	7.71%	8.55%	19.12%	17.70%	1.67%
Current Ratio	13.16	2.74	1.24	2.41	1.18	1.65
Debt/Capital	0.00%	16.34%	44.07%	3.19%	48.11%	66.04%
Net Margin	14.07%	-23.63%	11.00%	76.08%	2.77%	15.37%
Return on Equity	8.73%	-10.52%	16.39%	4.06%	15.03%	50.24%
Sales/Assets	0.57	0.58	0.55	0.31	0.65	0.75
Proj. Sales Growth (F1/F0)	1.06%	0.00%	-2.17%	-0.26%	-4.89%	-5.03%
Momentum Score	A	-	-	B	F	D
Daily Price Chg	1.66%	0.60%	0.74%	2.06%	3.23%	-0.65%
1 Week Price Chg	-5.34%	0.00%	0.53%	-0.28%	-2.86%	1.09%
4 Week Price Chg	0.16%	11.65%	6.47%	19.61%	21.96%	1.96%
12 Week Price Chg	-13.05%	-10.27%	-20.68%	19.25%	-12.56%	-9.25%
52 Week Price Chg	2.98%	-6.84%	-10.95%	48.81%	0.33%	-17.69%
20 Day Average Volume	233,558	208,354	2,492,530	243,337	1,356,985	3,362,545
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.18%	0.20%
(F1) EPS Est 4 week change	0.00%	0.00%	-7.39%	-8.38%	-20.57%	-6.52%
(F1) EPS Est 12 week change	-5.98%	-11.83%	-14.21%	-14.05%	-36.16%	-17.03%
(Q1) EPS Est Mthly Chg	0.00%	-0.52%	-13.52%	-28.57%	-95.67%	-13.04%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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